

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION C

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2010 JUL 20 P 3:46

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ORIGINAL

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
APPROVAL OF ITS REQUEST FOR
ADDITIONAL FUNDING FOR ITS NON-
RESIDENTIAL EXISTING FACILITIES
PROGRAM.

DOCKET NO. E-01933A-07-0401

TUCSON ELECTRIC POWER
COMPANY'S EXCEPTIONS TO
RECOMMENDED ORDER RE:
NON-RESIDENTIAL EXISTING
FACILITIES PROGRAM

TEP, through undersigned counsel, hereby requests the Commission to amend the recommended order to eliminate the proposed cap of 21% of program budget on payments to the Implementation Contractor ("IC") for TEP's Non-Residential Existing Facilities Program ("Program"). This inflexible cap may adversely affect TEP's ability to realize its energy efficiency savings goals for this Program and potentially other energy efficiency programs, not only for 2010 but also in ensuing years when the prospective Electric Energy Efficiency Rules ("Rules") take effect.

An inflexible cap is problematic for several reasons. First, as Staff acknowledges, this particular Program has "unusually complex technological requirements and is experiencing high levels of participation." These circumstances require that TEP have sufficient funding to meet both the technological challenges and the demand. An arbitrary cap interferes with TEP's ability to ensure sufficient IC support for the Program. Although Staff appears to recognize the importance of the personnel employed by the IC, Staff recommends reducing the amount of money available to pay these same employees. This has the effect of possibly reducing the number of employees working for the IC, decreasing customer satisfaction and jeopardizing the ability of the IC to fulfill its contractual obligations. Moreover, given the high participation in the Program to date, during the first half of 2010, the IC added a full time engineer and a full time administrative person to handle the increased demands of the program. This additional labor is necessary to implement the increased workload resulting from increased

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1 participation in the program. This is another key reason that the IC budget percentage cannot be reduced
2 and capped. These labor costs must be covered during the balance of 2010 and beyond.

3 Second, this Program contains a custom incentive category, which allows customers to apply for a
4 custom incentive beyond the offered prescriptive incentives. A custom incentive application typically
5 requires an engineer to assess the proposed application to determine feasibility, energy savings, and cost
6 effectiveness. There is no way to pre-determine how many custom incentive applications will be
7 received. The greater the number of custom applications, the greater the cost for the IC to provide these
8 engineering services. Again, a cap limits the ability of the IC to fulfill its contractual obligations.

9 Third, TEP is concerned that a payment cap set in this docket will set a precedent for other Energy
10 Efficiency ("EE") Programs. A "uniform" cap would be problematic for EE programs. Different types of
11 EE Programs have different implementation costs, which vary from as low as 15% to as high as 85% or
12 even greater. For example, an EE program to remove and recycle secondary refrigerators and freezers
13 from homes may have IC costs at 60% or greater of the entire budget. Establishing an arbitrary cap for
14 this Program potentially jeopardizes TEP's ability to offer expanded EE programs to its customers.

15 Staff's limited rationale for the 21% cap does not sufficiently justify imposing inflexible
16 parameters on the emerging and evolving EE programs, particular the Program at issue here. Although
17 Staff believes that certain per-unit costs may decrease over time, Staff only identifies marketing as a
18 declining expense as the program matures. However, marketing is a separate budget category from IC
19 services. With a cap there is no possibility of transferring any marketing funds to cover IC costs as
20 needed or appropriate.

21 In previous decisions TEP has been given the latitude to transfer funds within budget categories in
22 a specific program, with the exception of incentives. Incentives are to be maximized and should not fall
23 below a predetermined percent of the total budget. If the IC cap is put in place, 86% of the entire program
24 budget is locked into two budget categories. This leaves TEP with little, if any, flexibility to move only
25 14% of the budget to areas that need funds to make the program successful. With a cap of 21% on the IC
26 budget, TEP could not move additional funds to the IC category even if it is needed. Staff's
27 recommendations leave very little room for flexibility to manage the program effectively. TEP makes

1 every effort to spend ratepayer money wisely and maximize savings. Indeed, TEP's IC has provided TEP
2 with a comparison of budget percentages for other utilities for similar programs. The percentage of IC
3 payments to overall budget averages 29% for nine comparable programs for other utilities. TEP's
4 requested budget allocation for the IC falls below this average.

5 TEP suggests that the most effective way to manage funds is to have a total budget for the
6 program and savings goals to be achieved. As in previous decisions TEP should have the latitude and
7 flexibility to manage the budget to achieve the established goals in a cost effective manner. Locking in
8 budget categories on an arbitrary basis is counterproductive to achieving and exceeding the goals of the
9 program. The short history spending patterns of the program bears out the fact that maximizing incentive
10 dollars, thus savings, is the top priority of TEP when managing DSM programs.


11 Therefore TEP again requests that the full budget amount of \$550,000 be restored to the IC to
12 allow TEP and its IC to effectively deliver the Program. TEP requests that the proposed order be
13 amended as follows"

- 14 1. At page 5, line 6, **DELETE** Finding of Fact No. 14.
15 2. At page 6, line 14, **DELETE** the phrase beginning with "but that payments"

16 RESPECTFULLY SUBMITTED this 20th day of July 2010.

17 TUCSON ELECTRIC POWER COMPANY

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19 By _____


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